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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 000170

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STATE FOR D, E, P, AND WHA
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NSC FOR DAN FISK
COMMERCE FOR MSELIGMAN AND WBASTIAN
STATE PASS USTR FOR AMALITO

E.O. 12958: DECL: 01/25/2017

TAGS: EPET ENRG PREL BBSR NI VE HO

SUBJECT: HONDURAN GOVERNMENT REVIEWING OIL COMPANY OFFERS;
CONOCO STILL ON HOLD PENDING SETTLEMENT OF STORAGE QUESTION

REF: A. A) TEGU 0149 AND PREVIOUS

¶B. B) TEGU 0151

Classified By: AMB Charles Ford for reasons 1.4 (b,d)

¶11. (C/NF) As of mid-day January 26, the GOH and the international oil companies (IOCs) continue their quiet dialogue over reforms to the fuels pricing formula. If the proposed reforms can deliver cost savings to the consumer while moving the market towards liberalization, the GOH appears inclined to accept such proposals instead of moving forward with a pending plan to nationalize the fuels import sector. If the GOH takes control of imports, it will seek to sign a contract with U.S. firm ConocoPhillips to supply its fuel needs for the coming year. However, it would also likely need to invoke legal proceedings to seize control of privately owned storage facilities in order to move forward with this plan. It appears to Post that the GOH is now seeking a way to avoid such an outcome.

¶12. (C/NF) EconChief spoke separately to both Esso (ExxonMobil) and Texaco about the state of talks. Both firms met with the GOH in San Salvador last week and both subsequently accepted the GOH offer to present proposed pricing formula reforms. The companies briefed GOH fuels advisor Arturo Corrales on their proposals on January 22 and 23, and submitted written drafts of the proposals on January ¶124. Both companies felt their offers were quite reasonable and in keeping with the ideas floated at the San Salvador meetings. The GOH has not formally responded to the companies yet, though both companies indicate a willingness to entertain counteroffers.

¶13. (C/NF) In separate conversations with EconChief and Ambassador, Corrales was very upbeat, saying that the offers received were "very, very close" to what was discussed in Salvador. Corrales briefed President Jose Manuel "Mel" Zelaya Rosales on the plans on January 25. In yet another confirmation of the GOH's intent to liberalize (and apparently to begin distancing itself from implementing the national import scheme), Zelaya did not once mention the fuel

bid solicitation in his January 25 speech to Congress celebrating his achievements after one year in office. Instead, he said, "We need to continue to advance the process of transparency in the distribution of petroleum products. We must create conditions that allow the companies now in the country to enter into free competition and competition based on prices and markets, for the benefit of better fuel prices to consumers. We cannot continue with the state bound to the international companies, but rather we have to let them enter a process of competition to begin to liberalize the fuels market for the benefit of the consumer, as they have done in Guatemala and El Salvador. This is the pact to which we as Honduras must subscribe, to break with any kind of arrangement that does not benefit the market."

¶4. (SBU) On January 26, ConocoPhillips sent a letter to the GOH that, according to Conoco representatives, "confirms Conoco's interest in the business and requests information on the tank farm and operator." Post does not yet have a copy of that letter, but it appears the letter was much more specific than that. According to public remarks by Minister Advisor for Legal Affairs and chief negotiator on the fuels issue Enrique Flores Lanza, the letter from Conoco rejects the GOH proposal to provide fuel storage by seizing privately owned tanks from DIPPSA and Esso. According to Flores Lanza, Conoco is requesting the GOH produce written authorization from DIPPSA consenting to use of those tanks. Flores Lanza said that the GOH will meet with DIPPSA President Henry Arevalo on Monday to discuss this matter.

¶5. (C/NF) Comment: Events of the past few days make it increasingly clear that the GOH is laying the groundwork for a course correction away from a national import scheme and

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towards a liberalized market. It speaks volumes that the GOH received the Conoco letter on Friday morning and is willing to wait until Monday to begin a discussion with Arevalo. Post assesses that if the GOH were still serious about the Conoco offer, they would have summoned Arevalo to a meeting immediately, or at the latest the following day. The President's choice not to mention the fuel bid solicitation in his speech is equally noteworthy, and suggests that his rejection of "any kind of arrangement that does not benefit the market" is aimed not just at the alleged oligopolists, but also at the proposed state-run monopoly that would have been the centerpiece of the national import scheme.

¶6. (C/NF) Comment continued: The GOH has become increasingly aware of the risks to its reputation and investment climate that pursuing a strategy based on government seizures of sectors and assets would bring. If the GOH can reach accommodation with the IOCs, and can sell the idea to the public, it can obviate the need for those heavy handed tactics and avoid the risk of major international lawsuits. As a result, the GOH's enthusiasm for signing a sole-source contract appears to be waning as the other IOCs present viable alternatives to the bid solicitation plan. Zelaya will deliver a major one-year anniversary speech on Saturday.

Post assesses that he might well use that opportunity to make even more explicit the GOH choice to forego state interventionism in the fuels market and instead pursue market liberalization and competition. We're not chilling the champagne yet, but we have plugged the refrigerator back in.
End Comment.

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